

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name		County	
Fiscal Year End		Opinion Date			Date Audit Report Submitted to State		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

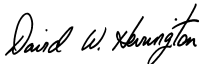
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Village of Grosse Pointe Shores, Michigan

Financial Report
with Supplemental Information
March 31, 2007

Village of Grosse Pointe Shores, Michigan

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Village of Grosse Pointe Shores, Michigan

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Independent Auditor's Report

To the Village Council
Village of Grosse Pointe Shores, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, Michigan as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Grosse Pointe Shores, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, Michigan as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council
Village of Grosse Pointe Shores, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Grosse Pointe Shores, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

July 12, 2007

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Grosse Pointe Shores, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2007:

- State-shared revenue, our second largest revenue source, was reduced slightly by the State of Michigan.
- Total fund balance related to the Village's General Fund decreased by approximately \$144,000. The Village anticipated a decrease of approximately \$183,000 as is evidenced by the final amended budget. Actual expenditures exceeded budget due to increases in repairs and maintenance expenditures for buildings and grounds and public works.
- Total net assets related to the Village's governmental activities decreased by approximately \$255,000 in 2007 compared to a decrease of approximately \$447,000 in 2006. This improvement was primarily a result of increased property tax revenue.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2007 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 1,203	\$ 1,137	\$ 1,033	\$ 1,042	\$ 2,236	\$ 2,179
Noncurrent assets	<u>5,644</u>	<u>6,074</u>	<u>11,603</u>	<u>11,848</u>	<u>17,247</u>	<u>17,922</u>
Total assets	6,847	7,211	12,636	12,890	19,483	20,101
Liabilities						
Current liabilities	412	358	370	315	782	673
Long-term liabilities	<u>2,187</u>	<u>2,350</u>	<u>3,746</u>	<u>3,881</u>	<u>5,933</u>	<u>6,231</u>
Total liabilities	<u>2,599</u>	<u>2,708</u>	<u>4,116</u>	<u>4,196</u>	<u>6,715</u>	<u>6,904</u>
Net Assets						
Invested in capital assets - Net of related debt	4,164	4,378	7,540	7,689	11,704	12,067
Restricted	363	236	-	-	363	236
Unrestricted (deficit)	<u>(279)</u>	<u>(111)</u>	<u>980</u>	<u>1,005</u>	<u>701</u>	<u>894</u>
Total net assets	<u>\$ 4,248</u>	<u>\$ 4,503</u>	<u>\$ 8,520</u>	<u>\$ 8,694</u>	<u>\$ 12,768</u>	<u>\$ 13,197</u>

The Village's 2007 combined net assets decreased 3.2 percent from the previous year (from approximately \$13.2 million in 2006 to \$12.8 million in 2007). A review of the 2007 governmental activities net assets, separate from the business-type activities, shows a decrease from the previous year of approximately \$255,000, or 5.6 percent. This decrease is largely due to increased spending in the public works department for planned projects and services. The 2007 business-type activities net assets show a decrease from the previous year of approximately \$174,000, or 2.0 percent. This decrease is largely due to an increase in repairs and maintenance and general and administrative expenditures in the Marina Fund.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, decreased by approximately \$168,000 in the governmental activities. The unrestricted net asset deficit balance at March 31, 2007 was approximately \$279,000. This negative unrestricted net asset balance is primarily a result of the use of fund balance for budgeted expenditures, without consideration of legal restrictions and investments in capital assets net of related debt.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended March 31, 2007 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 300	\$ 303	\$ 1,441	\$ 1,444	\$ 1,741	\$ 1,747
Operating grants and contributions	168	170	-	-	168	170
Capital grants and contributions	79	-	-	-	79	-
General revenue:						
Property taxes	4,843	4,659	-	-	4,843	4,659
State-shared revenue	233	236	-	-	233	236
Unrestricted investment earnings	92	109	21	15	113	124
Miscellaneous	310	286	-	-	310	286
Transfers	(339)	(318)	339	318	-	-
Total revenue	5,686	5,445	1,801	1,777	7,487	7,222
Program Expenses						
General government	1,631	1,518	-	-	1,631	1,518
Public safety	2,409	2,428	-	-	2,409	2,428
Public works	1,310	1,273	-	-	1,310	1,273
Recreation and culture	531	606	-	-	531	606
Interest on long-term debt	60	67	-	-	60	67
Water and sewer	-	-	1,565	1,864	1,565	1,864
Marina	-	-	411	252	411	252
Total program expenses	5,941	5,892	1,976	2,116	7,917	8,008
Change in Net Assets	<u>\$ (255)</u>	<u>\$ (447)</u>	<u>\$ (175)</u>	<u>\$ (339)</u>	<u>\$ (430)</u>	<u>\$ (786)</u>

Governmental Activities

The Village's governmental revenue, excluding transfers, increased by approximately \$262,000 or 4.5 percent during 2007. This is primarily a result of increased property tax revenue based on inflationary increases in the taxable value of properties.

The Village's governmental expenditures increased by approximately \$49,000, or 0.8 percent during 2007. This is primarily a result of increased spending in the general government department for planned projects and services.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The Village's business-type activities consist of the Water, Sewer, and Marina Funds. The Village provides water to residents, which is purchased from the City of Detroit Water System. Sewage treatment is provided through an agreement with Wayne County. The 2007 program revenue remained relatively flat compared to the previous year, while expenditures decreased by approximately \$140,000, or 6.6 percent during 2007. This decrease is due to the completion of water and sewer rehabilitation projects in the prior year.

The Village's Funds

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major governmental funds for 2007 include the General Fund and the Major and Local Street Funds. Both of the Village's Enterprise Funds are presented as major funds.

The General Fund pays for most of the Village's governmental services. The most significant are police and fire, which incurred expenses of approximately \$2,215,000 in 2007.

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was to decrease the estimated revenue for property taxes by approximately \$119,000. This was due to several adjustments to the taxable valuation of various properties. While amendments were also made to department expenditures during the year, total General Fund expenditures exceeded the final amended budget by approximately \$40,000. This variance represents a 0.7 percent increase over the final amended budget.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Village had approximately \$17.1 million invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the Village has invested significantly in roads and other infrastructure within the Village.

Long-term Debt

The Village's total bonded indebtedness as of March 31, 2007 is \$5.5 million. Of this amount, \$5.2 million is general obligation bonds. In addition, the Village has contractual obligations totaling \$290,000. This amount represents the Village's portion of debt related to the Mack Avenue Water Main Project.

Village of Grosse Pointe Shores, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The Village's budget for next year calls for a minimal increase on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, however, the Village needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than by inflation, before considering new property additions.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village offices.

Village of Grosse Pointe Shores, Michigan

Statement of Net Assets March 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 938,138	\$ 762,513	\$ 1,700,651
Receivables:			
Taxes	138,136	-	138,136
Customers	-	120,015	120,015
Other governmental units	59,593	-	59,593
Other	123,342	-	123,342
Inventories	15,169	2,335	17,504
Prepaid costs and other assets	29,007	48,545	77,552
Internal balances	(99,947)	99,947	-
Restricted assets (Note 9)	50,000	109,013	159,013
Investment in joint venture (Note 13)	17,088	-	17,088
Capital assets (Note 5):			
Nondepreciable	880,608	1,281,044	2,161,652
Depreciable - Net	4,696,598	10,212,782	14,909,380
Total assets	6,847,732	12,636,194	19,483,926
Liabilities			
Accounts payable	141,391	-	141,391
Accrued and other liabilities	47,573	2,630	50,203
Deferred revenue (Note 4)	150,538	50,688	201,226
Noncurrent liabilities (Note 8):			
Due within one year	72,900	316,700	389,600
Due in more than one year	2,187,140	3,745,909	5,933,049
Total liabilities	2,599,542	4,115,927	6,715,469
Net Assets			
Invested in capital assets - Net of related debt	4,164,587	7,540,230	11,704,817
Restricted:			
Streets and highways	129,227	-	129,227
Sanitation	233,601	-	233,601
Unrestricted (deficit)	(279,225)	980,037	700,812
Total net assets	\$ 4,248,190	\$ 8,520,267	\$ 12,768,457

Village of Grosse Pointe Shores, Michigan

	Program Revenues			
	Charges for	Operating	Capital Grants	
Expenses	Services	Grants and Contributions	and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,630,701	\$ 213,142	\$ -	\$ -
Public safety	2,409,124	86,798	-	-
Public works	1,310,603	-	168,135	79,328
Recreation and culture	530,826	-	-	-
Interest on long-term debt	59,886	-	-	-
Total governmental activities	5,941,140	299,940	168,135	79,328
Business-type activities:				
Water and sewer	1,565,458	1,264,862	-	-
Marina	410,628	176,265	-	-
Total business-type activities	1,976,086	1,441,127	-	-
Total primary government	<u>\$ 7,917,226</u>	<u>\$ 1,741,067</u>	<u>\$ 168,135</u>	<u>\$ 79,328</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2007

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (1,417,559)	\$ -	\$ (1,417,559)
(2,322,326)	-	(2,322,326)
(1,063,140)	-	(1,063,140)
(530,826)	-	(530,826)
<u>(59,886)</u>	<u>-</u>	<u>(59,886)</u>
(5,393,737)	-	(5,393,737)
-	(300,596)	(300,596)
<u>-</u>	<u>(234,363)</u>	<u>(234,363)</u>
-	(534,959)	(534,959)
<u>(5,393,737)</u>	<u>(534,959)</u>	<u>(5,928,696)</u>
4,843,037	-	4,843,037
232,694	-	232,694
91,764	21,539	113,303
310,300	-	310,300
<u>(338,913)</u>	<u>338,913</u>	<u>-</u>
<u>5,138,882</u>	<u>360,452</u>	<u>5,499,334</u>
(254,855)	(174,507)	(429,362)
<u>4,503,045</u>	<u>8,694,774</u>	<u>13,197,819</u>
<u>\$ 4,248,190</u>	<u>\$ 8,520,267</u>	<u>\$ 12,768,457</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Balance Sheet March 31, 2007

	Major Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 592,307	\$ 257,848	\$ 87,983	\$ -	\$ 938,138
Receivables:					
Delinquent taxes	138,136	-	-	-	138,136
Other	70,354	-	-	-	70,354
Due from other governmental units	29,507	20,816	9,270	-	59,593
Due from other funds (Note 6)	246,690	-	-	200,000	446,690
Inventories	15,169	-	-	-	15,169
Prepaid costs and other assets	29,007	-	-	-	29,007
Restricted assets (Note 9)	50,000	-	-	-	50,000
Total assets	<u>\$ 1,171,170</u>	<u>\$ 278,664</u>	<u>\$ 97,253</u>	<u>\$ 200,000</u>	<u>\$ 1,747,087</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 141,391	\$ -	\$ -	\$ -	\$ 141,391
Accrued and other liabilities	47,573	-	-	-	47,573
Due to other funds (Note 6)	299,947	159,965	86,725	-	546,637
Deferred revenue (Note 4)	150,538	-	-	-	150,538
Total liabilities	639,449	159,965	86,725	-	886,139
Fund Balances					
Reserved for:					
Sanitation expenditures	233,601	-	-	-	233,601
Prepaid expenditures	29,007	-	-	-	29,007
Inventory	15,169	-	-	-	15,169
Unreserved, reported in:					
General Fund	253,944	-	-	-	253,944
Special Revenue Funds	-	118,699	10,528	200,000	329,227
Total fund balances	531,721	118,699	10,528	200,000	860,948
Total liabilities and fund balances	<u>\$ 1,171,170</u>	<u>\$ 278,664</u>	<u>\$ 97,253</u>	<u>\$ 200,000</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					5,577,206
Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures					52,988
Long-term liabilities are not due and payable in the current period and are not reported in the funds:					
Notes and bonds payable					(1,462,619)
Compensated absences					(797,421)
The investment in joint venture is not recorded in the funds					17,088
Net assets of governmental activities					<u>\$ 4,248,190</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2007

	<u>Major Special Revenue Funds</u>			Other	Total
	General	Major Street	Local Street	Nonmajor	Total
	Fund	Fund	Fund	Governmental	Governmental
				Funds	Funds
Revenue					
Property taxes	\$ 4,407,488	\$ -	\$ -	\$ 435,549	\$ 4,843,037
State sources	231,211	116,321	51,814	-	399,346
Licenses and permits	29,731	-	-	-	29,731
Fines and forfeitures	192,942	-	-	-	192,942
Ambulance fees	57,067	-	-	-	57,067
Building rent	20,200	-	-	-	20,200
Interest	61,838	19,572	10,354	-	91,764
Other	278,237	-	-	9,962	288,199
Total revenue	5,278,714	135,893	62,168	445,511	5,922,286
Expenditures					
General government	1,872,549	-	-	-	1,872,549
Public safety	2,214,979	-	-	9,962	2,224,941
Public works	780,531	211,588	213,963	-	1,206,082
Recreation and culture	584,497	-	-	-	584,497
Debt service	-	-	-	96,636	96,636
Total expenditures	5,452,556	211,588	213,963	106,598	5,984,705
Excess of Revenue Over (Under) Expenditures	(173,842)	(75,695)	(151,795)	338,913	(62,419)
Other Financing Sources (Uses)					
Transfers in	30,000	-	50,000	-	80,000
Transfers out	-	(50,000)	-	(338,913)	(388,913)
Total other financing sources (uses)	30,000	(50,000)	50,000	(338,913)	(308,913)
Net Change in Fund Balances	(143,842)	(125,695)	(101,795)	-	(371,332)
Fund Balances - Beginning of year, as restated (Note 1)	675,563	244,394	112,323	200,000	1,232,280
Fund Balances - End of year	<u>\$ 531,721</u>	<u>\$ 118,699</u>	<u>\$ 10,528</u>	<u>\$ 200,000</u>	<u>\$ 860,948</u>

Village of Grosse Pointe Shores, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (371,332)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	498,298
Depreciation expense	(292,840)

In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold (59,031)

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds 1,483

Return on investment in joint venture is not recorded in the funds 2,403

Repayment of debt principal is an expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 36,750

Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities (70,586)

Change in Net Assets of Governmental Activities \$ (254,855)

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Net Assets March 31, 2007

	Marina	Water and Sewer	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 465,581	\$ 296,932	762,513
Customer receivables	-	120,015	120,015
Due from other funds (Note 6)	99,947	-	99,947
Inventories	-	2,335	2,335
Prepaid costs and other assets	-	48,545	48,545
Total current assets	565,528	467,827	1,033,355
Noncurrent assets:			
Restricted assets (Note 9)	-	109,013	109,013
Capital assets (Note 5)	771,225	10,722,601	11,493,826
Total noncurrent assets	771,225	10,831,614	11,602,839
Total assets	1,336,753	11,299,441	12,636,194
Liabilities			
Current liabilities:			
Deferred revenue (Note 4)	50,688	-	50,688
Other liabilities	-	2,630	2,630
Current portion of long-term debt (Note 8)	-	316,700	316,700
Total current liabilities	50,688	319,330	370,018
Long-term debt - Net of current portion (Note 8)	-	3,745,909	3,745,909
Total liabilities	50,688	4,065,239	4,115,927
Net Assets			
Investment in capital assets - Net of related debt	771,225	6,769,005	7,540,230
Unrestricted	514,840	465,197	980,037
Total net assets	<u>\$ 1,286,065</u>	<u>\$ 7,234,202</u>	<u>\$ 8,520,267</u>

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2007

	Marina	Water and Sewer	Total
Operating Revenue			
Customer billings	\$ -	\$ 1,264,862	\$ 1,264,862
Other charges for services	176,265	-	176,265
Total operating revenue	176,265	1,264,862	1,441,127
Operating Expenses			
Water supply and sewage disposal	-	715,721	715,721
Repairs and maintenance	153,019	209,352	362,371
General and administrative	124,779	191,027	315,806
Depreciation	102,830	449,133	551,963
Total operating expenses	380,628	1,565,233	1,945,861
Operating Loss	(204,363)	(300,371)	(504,734)
Nonoperating Revenue (Expense)			
Interest income	21,539	-	21,539
Other expense	-	(225)	(225)
Total nonoperating revenue (expense)	21,539	(225)	21,314
Loss - Before transfers	(182,824)	(300,596)	(483,420)
Other Financing Sources (Uses)			
Transfers in	-	338,913	338,913
Transfers out	(30,000)	-	(30,000)
Total other financing sources (uses)	(30,000)	338,913	308,913
Change in Net Assets	(212,824)	38,317	(174,507)
Net Assets - Beginning of year	1,498,889	7,195,885	8,694,774
Net Assets - End of year	<u>\$ 1,286,065</u>	<u>\$ 7,234,202</u>	<u>\$ 8,520,267</u>

Village of Grosse Pointe Shores, Michigan

Proprietary Funds - Enterprise Funds Statement of Cash Flows Year Ended March 31, 2007

	Marina	Water and Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 176,265	\$ 1,266,638	\$ 1,442,903
Payments to suppliers	(146,265)	(910,585)	(1,056,850)
Net cash provided by operating activities	30,000	356,053	386,053
Cash Flows from Capital and Related Financing Activities			
Transfers (to) from other funds	(30,000)	338,913	308,913
Purchase of capital assets	-	(291,779)	(291,779)
Transfer of unspent bond proceeds			
Principal and interest paid on capital debt	-	(278,436)	(278,436)
Net cash used in capital and related financing activities	(30,000)	(231,302)	(261,302)
Cash Flows from Investing Activities			
Interest received on investments	21,539	-	21,539
Other receipts	-	-	-
Net cash provided by investing activities	21,539	-	21,539
Net Increase in Cash and Cash Equivalents	21,539	124,751	146,290
Cash and Cash Equivalents - Beginning of year (as restated)	444,042	281,194	725,236
Cash and Cash Equivalents - End of year	<u>\$ 465,581</u>	<u>\$ 405,945</u>	<u>\$ 871,526</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 465,581	\$ 296,932	\$ 762,513
Restricted assets (Note 9)	-	109,013	109,013
Total cash and cash equivalents	<u>\$ 465,581</u>	<u>\$ 405,945</u>	<u>\$ 871,526</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (204,363)	\$ (300,371)	\$ (504,734)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	102,830	449,133	551,963
Changes in assets and liabilities:			
Receivables	-	1,776	1,776
Due from other funds	115,213	200,000	315,213
Other assets	-	5,534	5,534
Deferred revenue	16,320	-	16,320
Other liabilities	-	(19)	(19)
Net cash provided by operating activities	<u>\$ 30,000</u>	<u>\$ 356,053</u>	<u>\$ 386,053</u>

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2007, there were no noncash investing, capital, or financing activities.

Village of Grosse Pointe Shores, Michigan

Fiduciary Funds Statement of Net Assets March 31, 2007

	Pension and Other Post- employment Benefit Trust Funds	Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 1,863,674	\$ 174,622
Investments (Note 3):		
U.S. government securities	2,086,177	-
Common and preferred stock	11,002,959	-
Corporate bonds	3,043,401	-
Accrued interest and dividends	83,997	-
Prepaid expenditures	18,764	-
Total assets	18,098,972	<u>\$ 174,622</u>
Liabilities - Other liabilities	<u>53,230</u>	<u>\$ 174,622</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 18,045,742</u>	

Village of Grosse Pointe Shores, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended March 31, 2007

	Pension and Other Post- employment Benefit Trust Funds
<hr/>	
Additions	
Investment income:	
Interest, dividends, and net realized income on investments	\$ 1,169,789
Net increase in fair value of investments	547,684
Less investment expenses	<u>(179,197)</u>
Net investment income	1,538,276
Contributions:	
Employer	686,504
Employee	<u>144,080</u>
Total contributions	<u>830,584</u>
Total additions	2,368,860
Deductions	
Pension benefit payments	771,779
Health care benefit payments	292,102
Employee refunds	<u>43,388</u>
Total deductions	<u>1,107,269</u>
Change in Net Assets Held in Trust	1,261,591
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>16,784,151</u>
End of year	<u><u>\$ 18,045,742</u></u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Grosse Pointe Shores, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Grosse Pointe Shores, Michigan:

Reporting Entity

The Village of Grosse Pointe Shores is governed by an elected seven-member council. The council includes the president, president pro-tem, and five trustees.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds have been blended into the Village's financial statements. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds are governed by a five-member pension board that includes the Village Council president and two individuals chosen by the Village Council. The General and Public Safety Retirement System and Retired Employees' Health Care Benefits Trust Funds are reported as if they were part of the primary government because of the fiduciary responsibility that the Village retains relative to the operations of the funds.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Village (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund accounts for maintenance and improvement activities for streets designated as "major" in the Village. Funding is provided primarily through state-shared gas and weight tax.

Local Street Fund - The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" in the Village. Funding is provided primarily through state-shared gas and weight tax.

The Village reports the following major proprietary funds:

Marina Fund - The Marina Fund accounts for the activities of the Village's marina, which is primarily funded through the rental of boat wells.

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

Additionally, the Village reports the following fund types:

Pension and Other Employee Benefits Trust Funds - The Pension and Other Employee Benefits Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other post-employment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Village in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include intergovernmental revenue, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Village.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Village's policy is to first apply restricted assets.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities and Enterprise Funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include charges for services to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Village's 2006 tax is levied and collectible on July 1, 2006 and is recognized as revenue in the year ended March 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Village totaled \$339,917,746, on which ad valorem taxes levied consisted of 10.2540 mills for operating purposes, 1.4060 mills for refuse services, 1.1985 mills for the retirement system, 0.1471 mills for public act 359, and 1.2940 mills for debt service. This resulted in revenue of approximately \$3,485,500 for operating, \$478,000 for refuse services, \$407,000 for the retirement system, \$50,000 for public act 359, and \$440,000 for debt service. Amounts for the levies are recognized in the General Fund and the Debt Service Fund as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are due February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Vehicles	8 to 15 years
Machinery and equipment	5 to 20 years
Buildings	50 years
Land improvements	20 years
Infrastructure	20 to 50 years

Compensated Absences (Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick pay benefits. A liability is reported when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Correction of a Prior Period - The fund balance of the governmental funds as of April 1, 2006 has been restated to correct an error in the fund allocation of debt proceeds. There is no impact on net assets in the statement of governmental activities.

	General Fund	Major Street Fund	Local Street Fund
Governmental fund balance - April 1, 2006, as previously reported	\$ 655,910	\$ 386,090	\$ 172,033
Transfer in (out) of debt proceeds to a business-type activity	<u>19,653</u>	<u>(141,696)</u>	<u>(59,710)</u>
Governmental fund balance - April 1, 2006, as restated	<u>\$ 675,563</u>	<u>\$ 244,394</u>	<u>\$ 112,323</u>

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncements provide guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncements are effective for the Village's fiscal years ending March 31, 2009 and March 31, 2010 for Statement No. 43 and Statement No. 45, respectively.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999 (the "Act"), the Village is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the Village adopted this accounting treatment effective January 1, 2000. A summary of the activity is presented below:

Accumulated shortfall - April 1, 2006	\$ (101,936)
2006-2007 building department activity:	
Current year revenue	28,677
Current year expenditures	<u>72,278</u>
Excess of expenditures over revenue	<u>(43,601)</u>
Accumulated shortfall - March 31, 2007	<u><u>\$ (145,537)</u></u>

Budgetary Information

The Village is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The Village adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The Village follows these procedures in establishing the budget reflected in the financial statements:

1. The Village superintendent prepares and submits to the Village Council a complete itemized proposed budget in February for the following fiscal year.
2. A public hearing on the budget shall be held before its final adoption in March, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof.
3. The Council shall then adopt the budget for the ensuing fiscal year.

The annual budget is prepared by the Village superintendent and adopted by the Village Council; subsequent amendments are approved by the Village Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are as amended by the Village Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplemental information. A comparison of actual results of operations to the non-major Special Revenue Funds budgets as adopted by the Village Council is available at the Village offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 3 - Deposits and Investments (Continued)

The Pension Trust Fund and the Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments permissible under Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) as listed above. The Village's deposits and investment policies are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had approximately \$419,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The investment policies for the pension and other post-employment benefit trust funds specify that each investment manager shall maintain a weighted average duration of plus or minus 20 percent of the Lehman Bros. Intermediate Government Index. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Investment Maturity		
		0-5 Years	5-15 Years	> 15 Years
Corporate bonds	\$ 3,043,401	\$ 2,288,182	\$ 755,219	\$ -
U.S. government obligations	413,904	99,910	313,633	361
U.S. federal agencies	1,672,273	546,814	1,125,459	-
Total	<u>\$ 5,129,578</u>	<u>\$ 2,934,906</u>	<u>\$ 2,194,311</u>	<u>\$ 361</u>

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The investment policy for the pension and other post-employment benefit trust funds states that the weighted average credit quality of fixed income securities shall be A rated by Moody's and Standard and Poors; no more than 20 percent of the fixed income portfolio of a manager should be invested in securities carrying less than a Baa/Bbb rating either by Moody's and Standard and Poors; split rates securities will be governed by the lower rating; and commercial paper must be rated either A1 or P1. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Pooled investments	\$ 1,851,581	Not rated	N/A
Pooled investments	1,517,955	AAA	Standard and Poors
Corporate bonds	143,430	AAA	Standard and Poors
Corporate bonds	96,620	AA	Standard and Poors
Corporate bonds	348,944	AA-	Standard and Poors
Corporate bonds	449,574	A+	Standard and Poors
Corporate bonds	724,967	A	Standard and Poors
Corporate bonds	278,590	A-	Standard and Poors
Corporate bonds	156,637	BBB+	Standard and Poors
Corporate bonds	101,866	BBB	Standard and Poors
Corporate bonds	346,694	BB+	Standard and Poors
Corporate bonds	297,165	B	Standard and Poors
Corporate bonds	98,915	Not rated	N/A
U.S. government obligations	201,732	AAA	Standard and Poors
U.S. government obligations	212,172	Not rated	N/A
U.S. federal agencies	1,428,986	AAA	Standard and Poors
U.S. federal agencies	243,287	A	Standard and Poors

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Activities		Business-type Activities
	Unearned	Unavailable	Unearned
Property taxes	\$ -	\$ 138,136	\$ -
Advance payments - Boat well rentals	-	-	50,688
Other	12,402	-	-
Total	<u>\$ 12,402</u>	<u>\$ 138,136</u>	<u>\$ 50,688</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance April 1, 2006	Reclassifications	Additions	Disposals	Balance March 31, 2007
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 880,608	\$ -	\$ -	\$ -	\$ 880,608
Construction in progress	513,060	(513,060)	-	-	-
Subtotal	1,393,668	(513,060)	-	-	880,608
Capital assets being depreciated:					
Vehicles	1,256,728	-	120,246	103,688	1,273,286
Machinery and equipment	424,256	-	52,937	-	477,193
Buildings	1,271,100	-	94,328	-	1,365,428
Land improvements	648,970	-	-	-	648,970
Infrastructure	7,515,557	513,060	230,787	-	8,259,404
Subtotal	11,116,611	513,060	498,298	103,688	12,024,281
Accumulated depreciation:					
Vehicles	984,741	-	49,095	44,657	989,179
Machinery and equipment	266,998	-	27,744	-	294,742
Buildings	704,258	-	21,092	-	725,350
Land improvements	455,051	-	32,448	-	487,499
Infrastructure	4,668,452	-	162,461	-	4,830,913
Subtotal	7,079,500	-	292,840	44,657	7,327,683
Net capital assets being depreciated	4,037,111	513,060	205,458	59,031	4,696,598
Net capital assets	\$ 5,430,779	\$ -	\$ 205,458	\$ 59,031	\$ 5,577,206

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
Capital assets not being depreciated:				
Land	\$ 5,053	\$ -	\$ -	\$ 5,053
Construction in progress	1,076,843	199,148	-	1,275,991
Subtotal	1,081,896	199,148	-	1,281,044
Capital assets being depreciated:				
Vehicles	28,600	92,631	-	121,231
Machinery and equipment	18,700	-	-	18,700
Buildings	234,500	-	-	234,500
Infrastructure	22,198,358	-	-	22,198,358
Marina	5,870,204	-	-	5,870,204
Subtotal	28,350,362	92,631	-	28,442,993
Accumulated depreciation:				
Vehicles	4,171	5,119	-	9,290
Machinery and equipment	18,700	-	-	18,700
Buildings	234,500	-	-	234,500
Infrastructure	12,424,728	444,014	-	12,868,742
Marina	4,996,149	102,830	-	5,098,979
Subtotal	17,678,248	551,963	-	18,230,211
Net capital assets being depreciated	10,672,114	(459,332)	-	10,212,782
Net capital assets	<u>\$ 11,754,010</u>	<u>\$ (260,184)</u>	<u>\$ -</u>	<u>\$ 11,493,826</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 34,103
Public safety	25,543
Public works	200,602
Recreation and culture	<u>32,592</u>
Total governmental activities	<u>\$ 292,840</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 5 - Capital Assets (Continued)

Business-type activities:	
Water and sewer	\$ 449,133
Marina	<u>102,830</u>
Total business-type activities	<u>\$ 551,963</u>

Construction Commitments - The Village has active construction projects at year end which include various infrastructure rehabilitation projects. At year end, the Village's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Infrastructure rehabilitation	\$ 1,014,909	\$ 110,000

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from Other Funds		
Nonmajor governmental fund	General Fund	\$ 200,000
General Fund	Major Street Fund	159,965
Marina Fund	General Fund	99,947
General Fund	Local Street Fund	<u>86,725</u>
Total		<u>\$ 546,637</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
Nonmajor governmental fund	Water and Sewer Fund	\$ 338,913
Marina Fund	General Fund	30,000
Major Street Fund	Local Street Fund	50,000

Transfers provided funding for capital acquisitions and debt service.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 7 - Shared Expenses and Elected Officials

The Village received the following payments from the Township of Grosse Pointe for shared expenses for the year ended March 31, 2007:

Rent	\$	20,000
Insurance		20,000
Administrative services		120,700

Note 8 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Intergovernmental contractual agreements are also general obligations of the government. Other long-term obligations include compensated absences and net pension obligations.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance (as restated)	Additions	Reductions	Ending Balance
Governmental Activities						
General obligation bonds:						
Unlimited Tax Bonds, Series 2004 -						
Net of unamortized discount:						
Amount of issue: \$1,700,000	2.50% -	\$36,750-	\$ 1,499,369 *	\$ -	\$ 36,750	\$ 1,462,619
Maturing through 2025	4.5%	\$154,350				
Other long-term obligations:						
Long-term portion of accrued sick pay liability			726,835	70,586	-	797,421
Total governmental activities			\$ 2,226,204	\$ 70,586	\$ 36,750	\$ 2,260,040
Business-type Activities						
General obligation bonds:						
Unlimited Tax Bonds, Series 2003:						
Amount of issue: \$2,250,000	1.15%-	\$125,000-	\$ 2,015,000	\$ -	\$ 170,000	\$ 1,845,000
Maturing through 2016	3.80%	\$235,000				
Unlimited Tax Bonds, Series 2004 -						
Net of unamortized discount:						
Amount of issue: \$1,800,000	2.50% -	\$38,250-	1,965,859 *	-	38,250	1,927,609
Maturing through 2025	4.5%	\$170,650				
Intergovernmental contractual agreement:						
Mack Avenue Water Main:						
Amount of issue: \$500,000		\$10,000-	360,000	-	70,000	290,000
Maturing through 2012	0.00%	\$70,000				
Total business-type activities			\$ 4,340,859	\$ -	\$ 278,250	\$ 4,062,609

* Unspent bond proceeds related to the 2004 General Obligation Bonds were transferred from the Major and Local Street Funds to the Water and Sewer Fund to correct an error in the initial fund allocation.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 8 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 43,300	\$ 56,131	\$ 99,431	\$ 316,700	\$ 131,978	\$ 448,678
2009	43,300	55,048	98,348	311,700	125,781	437,481
2010	43,300	53,922	97,222	306,700	119,202	425,902
2011	54,125	52,560	106,685	340,875	111,517	452,392
2012	64,950	50,767	115,717	290,050	102,654	392,704
2013-2017	368,050	219,482	587,532	1,376,950	355,240	1,732,190
2018-2022	476,300	138,125	614,425	623,700	180,871	804,571
2023-2025	369,294	27,446	396,740	495,934	35,942	531,876
Total	<u>\$ 1,462,619</u>	<u>\$ 653,481</u>	<u>\$ 2,116,100</u>	<u>\$ 4,062,609</u>	<u>\$ 1,163,185</u>	<u>\$ 5,225,794</u>

Defeased Debt

During prior years, the Village defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At March 31, 2007, \$1,875,000 of bonds outstanding are considered defeased.

Note 9 - Restricted Assets

Restricted assets consist of cash and cash equivalents as follows:

	Governmental Activities	Business-type Activities
	General Fund	Water and Sewer
Unspent bond proceeds	<u>\$ 50,000</u>	<u>\$ 109,013</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 10 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The Village participates in the Michigan Municipal League risk pool program for claims related to workers' compensation. The program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Village participates in the Michigan Municipal Risk Management Authority's State Pool program for claims relating to property loss, torts, errors and omissions, and personal injuries. The program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

For medical benefits, the Village previously purchased commercial insurance. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Effective May 1, 2005, the Village became self-funded for medical benefits up to a retention amount, at which time the Village's reinsurance coverage begins. The self-funding program is done in conjunction with the cities of Grosse Pointe, Grosse Pointe Farms, Grosse Pointe Park, and Grosse Pointe Woods. The Village serves as the administrative agent for the program; however, each municipality is responsible for its individual claims.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 10 - Risk Management (Continued)

The Village estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been incurred but not reported. The Village's liability is based on individual claims and management's evaluation of experience with respect to the probable number and nature of claims. Any adjustments resulting from the settlement of losses will be reflected at the time the adjustments are determined. Changes in the estimated liability for the current year were as follows:

Estimated liability - Beginning of year	\$ -
Estimated claims incurred, including changes in estimates	498,818
Claim payments	<u>(498,818)</u>
Estimated liability - End of year	<u>\$ -</u>

Note 11 - Defined Benefit Pension Plan

Plan Description

The Village contributes to the General and Public Safety Retirement System, which is the administrator of a single-employer public employees' retirement system that covers essentially all general and public safety employees of the Village. The plan does not issue a separate financial report.

The system provides retirement, death, and disability benefits to plan members and their beneficiaries. At March 31, 2007, membership consisted of 30 retirees, beneficiaries, and alternate payees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 41 current active employees.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 11 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by the Village charter. All full-time general and public safety employees are eligible to participate in the system. General participants in the system are required to contribute 3 percent of the first \$4,200 of annual salary plus 5 percent of annual salary in excess of \$4,200 to the system. Public safety participants are required to contribute 6 percent of their annual salary to the system. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost

For the fiscal year ended March 31, 2007, the Village's annual pension cost and required contribution of \$384,402 for the plan was equal to the Village's actual contribution of \$384,402. The annual required contribution was determined as part of an actuarial valuation at March 31, 2006, using the individual entry-age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.7 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 20 years.

As of March 31, 2007, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$2,053,503
Reserve for retired benefit payments	7,005,460

Three-year Trend Information

	2007	2006	2005
Annual pension cost (APC)	\$ 384,402	\$ 305,767	\$ 198,111
Percentage of APC contributed	100.0%	120.0%	68.7%
Net pension obligation	\$ -	\$ -	\$ 61,812

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 12 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 29 retirees are eligible. The Village includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Village purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized in the Retired Employees' Health Care Benefit Trust Fund as the insurance premiums become due; during the year, this amounted to \$292,102.

In the current year, the plan's reserves have been funded as follows:

Reserve for postemployment health care benefits	\$1,414,282
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The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rule will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

Note 13 - Joint Venture

The Village is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture (the "Authority"), which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Point, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton. The Village Council appoints one member to the Authority's governing board, which then approves its budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of the costs.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2007

Note 13 - Joint Venture (Continued)

The Village's interest in the net assets of the Authority totaled approximately \$17,000 at March 31, 2007 and is reported as part of the governmental activities in the statement of net assets. The Village is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Required Supplemental Information

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,952,626	\$ 4,834,079	\$ 4,843,037	\$ 8,958
State-shared revenue	241,000	237,660	231,211	(6,449)
Licenses and permits	71,000	27,000	29,731	2,731
Fines and forfeitures	225,000	187,500	192,942	5,442
Ambulance fees	40,000	50,000	57,067	7,067
Building rent	20,000	20,000	20,200	200
Interest	45,000	70,000	61,838	(8,162)
Other	135,000	199,600	278,237	78,637
Transfers in	167,000	167,000	158,057	(8,943)
Total revenue	5,896,626	5,792,839	5,872,320	79,481
Expenditures				
Village Council	72,000	62,200	69,097	(6,897)
Judicial	120,420	117,250	124,140	(6,890)
Village manager	502,520	531,985	528,874	3,111
Financial administration	590,850	584,850	589,127	(4,277)
Village clerk	100	100	100	-
Building and grounds	557,510	590,353	605,059	(14,706)
Public safety	2,408,329	2,239,475	2,214,979	24,496
Public works	383,621	499,460	472,148	27,312
Sanitation	477,900	388,630	386,440	2,190
Parks and recreation	466,376	519,965	584,497	(64,532)
Fringe benefits	350,000	350,000	349,670	330
Insurance	132,000	92,000	92,031	(31)
Total expenditures	6,061,626	5,976,268	6,016,162	(39,894)
Excess of Expenditures Over Revenue	(165,000)	(183,429)	(143,842)	39,587
Fund Balance - Beginning of year (as restated)	675,563	675,563	675,563	-
Fund Balance - End of year	\$ 510,563	\$ 492,134	\$ 531,721	\$ 39,587

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Major Street Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 118,000	\$ 112,000	\$ 116,321	\$ 4,321
Interest	1,000	18,500	19,572	1,072
Total revenue	119,000	130,500	135,893	5,393
Expenditures				
Highways and streets	414,200	225,200	211,588	13,612
Transfers out	-	50,000	50,000	-
Total expenditures	414,200	275,200	261,588	13,612
Excess of Expenditures Over Revenue	(295,200)	(144,700)	(125,695)	19,005
Fund Balance - Beginning of year (as restated)	244,394	244,394	244,394	-
Fund Balance (Deficit) - End of year	\$ (50,806)	\$ 99,694	\$ 118,699	\$ 19,005

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Local Street Year Ended March 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 53,000	\$ 49,500	\$ 51,814	\$ 2,314
Interest	1,000	9,400	10,354	954
Transfers in	-	50,000	50,000	-
Total revenue	54,000	108,900	112,168	3,268
Expenditures - Highways and streets	365,679	199,500	213,963	(14,463)
Excess of Expenditures Over Revenue	(311,679)	(90,600)	(101,795)	(11,195)
Fund Balance - Beginning of year (as restated)	112,323	112,323	112,323	-
Fund Balance - End of year	<u>\$ (199,356)</u>	<u>\$ 21,723</u>	<u>\$ 10,528</u>	<u>\$ (11,195)</u>

Village of Grosse Pointe Shores, Michigan

Required Supplemental Information General and Public Safety Retirement System Pension System Schedule of Funding Progress March 31, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date March 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Overfunded Actuarial Accrued Liability (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Actuarial Accrued Liability as a Percentage of Covered Payroll
2002	\$ 17,453,207	\$ 13,447,907	\$ (4,005,300)	129.8	\$ 2,240,075	179
2003	16,398,658	13,997,185	(2,401,473)	117.2	2,328,221	103
2004	15,987,977	14,685,220	(1,302,757)	108.9	2,271,915	57
2005	15,757,277	15,286,827	(470,450)	103.1	2,359,314	20
2006	16,320,244	16,024,922	(295,322)	101.8	2,491,921	12
2007	16,964,753	16,792,449	(172,304)	101.0	2,483,532	7

The schedule of employer contributions is as follows:

Years Ended March 31	Annual Required Contribution	Percentage Contributed
2002	\$ -	100.0
2003	-	100.0
2004	101,976	98.1
2005	198,111	68.7
2006	305,767	120.3
2007	384,402	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2007, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, open
Remaining amortization period	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.7% - 9.3%
*Includes inflation at the rate of	5.5%

Village of Grosse Pointe Shores, Michigan

Note to Required Supplemental Information March 31, 2007

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers and contributed capital have been included in the "revenue" and "expenditures" categories, rather than as an "other financing source" or "other financing use." In addition, reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures. Also, the property tax levy for debt service and the related debt service expenditure and transfer to the Water and Sewer Fund have been budgeted for in the General Fund.

The statement comparing actual to budgeted revenue and expenditures is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement of the General Fund to the operating statement:

	Revenue	Expenditures
Budget statement amount	\$ 5,872,320	\$ 6,016,162
Major and Local Street Funds expenditure		
reimbursements	(128,057)	(128,057)
Debt millage budgeted	(435,549)	-
Debt service expenditure budgeted	-	(96,636)
Operating transfers out	-	(338,913)
Operating transfers in	(30,000)	-
Contributed capital	(79,328)	-
Total operating statement amount	<u>\$ 5,199,386</u>	<u>\$ 5,452,556</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Grosse Pointe Shores, Michigan incurred expenditures that were in excess of the amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The budget overruns are as follows:

	Amended Budget	Actual
General Fund:		
Village council	\$ 62,200	\$ 69,097
Judicial	117,250	124,140
Financial administration	584,850	589,127
Building and grounds	590,353	605,059
Parks and recreation	519,965	584,497
Insurance	92,000	92,031
Local Street Fund - Highways and streets	199,500	213,963

Other Supplemental Information

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds March 31, 2007

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Budget Stabilization	911 Service	2004 Unlimited Tax	
Assets - Due from General Fund	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,000</u>
Fund Balances - Unreserved - Undesignated	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,000</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended March 31, 2007

	Special Revenue Funds		Debt Service Fund	Total Nonmajor Governmental Funds
	Budget Stabilization	911 Service	2004 Unlimited Tax	
Revenue				
Property taxes	\$ -	\$ -	\$ 435,549	\$ 435,549
Other	-	9,962	-	9,962
Total revenue	-	9,962	435,549	445,511
Expenditures				
Public safety	-	9,962	-	9,962
Debt service	-	-	96,636	96,636
Total expenditures	-	9,962	96,636	106,598
Excess of Revenue Over Expenditures	-	-	338,913	338,913
Other Financing Uses - Transfer out	-	-	(338,913)	(338,913)
Net Change in Fund Balances	-	-	-	-
Fund Balances - Beginning of year	200,000	-	-	200,000
Fund Balances - End of year	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,000</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Trust Funds March 31, 2007

	General and Public Safety Retirement System	Retired Employees' Health Care Benefits	Total
Assets			
Cash and cash equivalents	\$ 468,156	\$ 1,395,518	\$ 1,863,674
Investments:			
U.S. government securities	2,086,177	-	2,086,177
Common and preferred stock	11,002,959	-	11,002,959
Corporate bonds	3,043,401	-	3,043,401
Accrued interest and dividends	83,997	-	83,997
Prepaid expenditures	-	18,764	18,764
Total assets	16,684,690	1,414,282	18,098,972
Liabilities - Other liabilities	53,230	-	53,230
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 16,631,460</u>	<u>\$ 1,414,282</u>	<u>\$ 18,045,742</u>

Village of Grosse Pointe Shores, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Trust Funds Year Ended March 31, 2007

	General and Public Safety Retirement System	Retired Employees' Health Care Benefits	Total
Additions			
Investment income:			
Interest, dividends, and net realized income on investments	\$ 1,060,587	\$ 109,202	\$ 1,169,789
Net increase in fair value of investments	547,684	-	547,684
Less investment expenses	(179,197)	-	(179,197)
Net investment income	1,429,074	109,202	1,538,276
Contributions:			
Employer	384,402	302,102	686,504
Employee	131,843	12,237	144,080
Total contributions	516,245	314,339	830,584
Total additions	1,945,319	423,541	2,368,860
Deductions			
Pension benefit payments	771,779	-	771,779
Health care benefit payments	-	292,102	292,102
Employee refunds	43,388	-	43,388
Total deductions	815,167	292,102	1,107,269
Net Increase in Net Assets Held in Trust	1,130,152	131,439	1,261,591
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	15,501,308	1,282,843	16,784,151
End of year	<u>\$ 16,631,460</u>	<u>\$ 1,414,282</u>	<u>\$ 18,045,742</u>



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July 12, 2007

To the Village Council
Village of Grosse Pointe Shores
795 Lake Shore Road
Grosse Pointe Shores, MI 48236

Dear Village Council Members:

In planning and performing our audit of the financial statements of the Village of Grosse Pointe Shores as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



We noted no material weaknesses; however, we consider the following control deficiencies to be significant deficiencies:

- **Lack of Segregation of Duties** - Segregation of duties is an essential component of a sound system of internal controls. When job responsibilities are properly segregated, a system of “checks and balances” is created, thereby reducing the risk of intentional or unintentional errors and/or omissions in the accounting records. We noted the following areas that lack segregation of duties:
 - **Payroll** - The finance officer has the ability to sign payroll checks, add new employees to the payroll system, print payroll checks, and post journal entries to the general ledger (which are not required to be reviewed). We recommend that the finance officer be removed as an authorized check signer on this account.
 - **Journal Entries** - The finance officer is responsible for preparing and posting journal entries into the general ledger software system. This accounting data is being processed with no apparent supervisory review. A supervisory review of the finance officer’s work would strengthen the controls and may detect errors in the preparation process that may otherwise go undetected.
 - **Wire Transfers** - The Village makes use of electronic wire transfers to effect various transactions, including payroll and debt payments. Currently, these transfers can be initiated and authorized by the finance officer without prior review or approval by a second individual. We recommend implementing controls over wire transfers that would mirror or exceed those controls in place for traditional disbursements (approvals by various individuals, Council review, etc.).
- **Audit Journal Entries** - As a result of the auditing procedures performed, we detected and proposed the following significant audit adjustments. In all instances, the Village posted the proposed journal entries to more accurately reflect the financial condition of the Village at March 31, 2007.
 - **Long-term Debt** - During our testing of long-term debt in the Enterprise Funds, we noted principal payments of approximately \$200,000 that were improperly recorded as expenditures. Principal payments in the Enterprise Funds should be recorded as a reduction of debt. This was corrected through an audit adjustment.
 - **Capitalized Interest** - During our testing of capital assets in the Enterprise Funds, we noted the Village incurred approximately \$130,000 of interest related to the financing of construction in progress. Since the asset is in the process of being constructed, the interest incurred should have been capitalized. This transaction was improperly recorded by the Village as an expenditure. This was corrected through an audit adjustment.

- **Contributed Capital** - The Village received approximately \$79,000 of contributed capital related to the construction of a pavilion. This contribution and the related asset were not recorded on the Village's general ledger. This was corrected through an audit adjustment.
- **GASB 34** - No journal entries were posted by the Village to prepare the government-wide (GASB 34) financial statements. The Village requested assistance with proposing these entries. All GASB 34 transactions were corrected through audit adjustments with the exception of an entry to record property tax revenue of approximately \$138,000 that should be reported as current year revenue on the government-wide statements. Instead, this amount was reported as deferred revenue. This item is being corrected in the current fiscal year.
- **Self-insurance Liability** - The Village is self-insured for health care benefits; however, no liability has been recorded for claims incurred but not reported as of March 31, 2007. The estimated liability is approximately \$37,000 in the General Fund and \$24,000 in the Retired Employees Health Care Fund.

We also noted other accounting and legislative matters that we would like to communicate to you. In an effort to assist with the Village's efforts toward improved operational and financial health, we offer the following observations:

Overview of the Village's Financial Condition - During the year ended March 31, 2007, General Fund expenditures exceeded revenues by approximately \$144,000, taking into account contributed capital and transfers in from other funds. Fund balance at March 31, 2007 amounted to approximately \$532,000. Of this amount, \$234,000 is reserved for sanitation, \$44,000 is reserved for prepaids and inventory, and \$254,000 is undesignated. The undesignated portion represents approximately 4.2 percent of budgeted 2007-2008 expenditures.

The Village continues to be faced with many budgetary challenges, including:

- Expenditure growth in excess of revenue growth
- Limitations in property tax growth
- Future infrastructure and capital equipment needs
- Reductions in state revenue sharing

Many of the challenges are a direct result of the difficult economic period that has been experienced in the state of Michigan. Others are characteristics of the Village and its physical framework. The Village has recently reviewed a five-year financial forecasting model and a long-term capital plan to better predict the effects of revenue changes and what impact those changes have on the Village's ability to provide services to citizens. It is important that the Village maintain an adequate level of working capital and fund balance to meet financial challenges without affecting the level of services provided to citizens or the Village's ability to fund future obligations.

As you are aware, the Village is not alone in its budgetary struggles. The Task Force on Local Government Services and Fiscal Stability commissioned by the governor to further study Michigan's Municipal Finance Model has recently issued its report, the findings of which reinforce the issues currently faced by the Village. A copy of the report can be accessed at www.migfoa.org.

Allowable Expenditures - The State of Michigan has provided guidance to local units of government regarding appropriate use of public funds. In the interest of stewardship, municipalities are prohibited from appropriating money for uses other than those specifically authorized by the Constitution or State Statute, regardless of the perceived worthiness of the cause. We encourage management to review the guidance provided on the State of Michigan, Department of Treasury's website to ensure that the Village's expenditures are in compliance with state law and to discuss any questionable items with legal counsel.

New Audit Standards - The following new audit standards, issued by the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board, have been implemented for the Village's March 31, 2007 year end.

- **Statement on Auditing Standards No. 103 (Audit Documentation)** - This standard clarifies and increases the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It prescribes the form, content, and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditor's report and creates a "lock down" date for the audit file.

The impact of this new standard resulted in increased requests for audit documentation and dating the opinion letter later than in previous years.

- **Statement on Auditing Standards No. 112 (Communicating Internal Control Related Matters Identified in an Audit)** - This standard establishes standards and provides guidance regarding the auditor's communication responsibility to those charged with governance (i.e., Council or finance/audit committee) concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces the term "reportable condition"), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported, in writing, to those charged with governance and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

The impact of this new standard resulted in more significant deficiencies being reported due to the lower threshold for reporting internal control deficiencies. For example, items such as audit adjustments and passed adjustments are now considered strong indicators of internal control deficiencies.

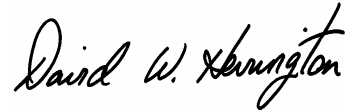
July 12, 2007

In addition to the two new Auditing Standards listed above, eight Auditing Standards will be effective for the Village's March 31, 2008 year end. Statement on Auditing Standards No. 104 to 111 (The Risk Assessment Standards) will substantially impact and change the future audit process. We are currently evaluating the specific impact and changes of these standards on our audit process. We will keep you apprised of our progress.

This communication is intended solely for the information and use of management, the Village Council, and others within the Village and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive, flowing style.

David W. Herrington

A handwritten signature in black ink that reads "Jenny L. Cederstrom". The signature is written in a cursive, flowing style.

Jenny L. Cederstrom